



STANFORD UNIVERSITY MEDICAL CENTER

STANFORD, CALIFORNIA 94305 • (415) 321-1200

March 8, 1973

STANFORD UNIVERSITY SCHOOL OF MEDICINE
Department of Genetics

↓ IRS
as social policy

Honorable Joseph M. Montoya
United States Senate
Washington, D.C. 20510

Dear Senator Montoya,

I understand your subcommittee is investigating the IRS procedures and policies governing tax audit.

This is one of the most widespread interfaces of government and the individual citizen, and one that carries along the most ambiguity. The public's faith in democratic government rests to a large extent on the fairness and efficiency of the tax collector.

Every taxpayer believes, I am sure, that the IRS itself warrants a periodic audit and review of its own procedures.

I have seen one criticism that contains a serious fallacy. It is alleged that IRS should spend less effort on low income returns because the yield per auditor-man-hour is less than for higher income. This argument overlooks the point that the principal function of audit is to deter evasions. The efficacy of auditor efforts should be measured by the yield from all the taxpayers in a given category who comply in anticipation of audit. If low income returns were entirely exempt from audit, the consequence would be rampant evasion, and a great loss of yield in the light of the overall fraction of income represented by such returns.

What the numbers do suggest is that the overall intensity of audit could cost-effectively be increased. Every additional agent hired would more than pay his way in harvesting additional taxes. However, Congress must also look closely at the unstated overhead of tax collection and audit in deciding how to balance the gains and costs. This overhead involves the overall IRS operation, but also taxpayer's costs in record-keeping and in legal advice concerning compliance and evasion. Tax collection per se does not contribute to the tangible economic product of the nation; and the public's eventual reaction to strenuous policing must also be considered.

The allocation of audit effort by income category should be a prototype of rational determination of social policy. I hope you will ask the IRS to exhibit the systematic analysis by which they arrive at their policies. Your committee can then better judge whether the value assumptions that are implicit in these technical calculations are consonant with your political mandate. I do not know whether behavioral scientists have been consulted, to the extent that would be reasonably required, in these analyses, in designing forms and other systems, etc.

Sincerely yours,

✓ cc: Comm. Johnnie M. Walters

Joshua Lederberg

IRS

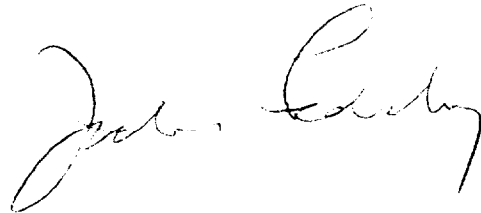
Professor of Genetics

LT. J. P. KENNEDY, JR. LABORATORIES FOR MOLECULAR MEDICINE, DEDICATED TO RESEARCH IN MENTAL RETARDATION

Montoya

P.S. May I call your attention to one inequity that serves no obvious social purpose. This is the multiple collection of OASI from several employers. The taxpayer's employee contribution is relieved by a credit he can apply for on his annual returns. He gets no credit for multiple employers' payments. As OASI tax rates increase, this eventuates in a substantial windfall to OASI at the expense of a particular category of employers and employees.

I do see some difficulties in administering rebates, but this does not justify the perpetuation of an unfair tax on part-time employment. One should avoid invading the privacy of taxpayers even vis-a-vis plural employers. May I suggest that when taxpayers claim credit for multiple employee payments the IRS itself calculate a pro rata rebate to the corresponding employers. However, this should be done anonymously, i.e., without revealing the names of the employers in question.

A handwritten signature in dark ink, appearing to read "Joe. Montoya", written in a cursive style.